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business review

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PROSPERITY ON THE INSTALMENT PLAN

Consumer instalment and housing debt amount to about two-thirds of all private, non-corporate debt. This article deals with the principal sources of such credit, the avenues by which credit policy may affect the supply of funds available to lenders, and whether consumer debt has become too large.

CURRENT TRENDS

The housing market is increasingly selective and builders are proceeding more cautiously. Auto dealers are facing more intensive competition in new cars but the used car market remains strong.

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PROSPERITY ON THE INSTALMENT PLAN

Business in the coming year will be influenced a great deal by what consumers do, particularly in their spending for durables and housing. In the past year they have drawn heavily on tomorrow's income to meet today's expenditures.

Here we take a look at: (a) the general instalment credit picture—housing and consumer, and (b) the results of a recent survey of the housing and automobile markets in this District.

Production, employment, and income have been moving ahead at a rapid pace. A good part of the steam behind this upward surge has been supplied by consumers. In addition to spending the bulk of our current income, we have been dipping into our future income in a big way. The essence of credit is that it enables us to spend now some of the income we hope to get later.

Consumer instalment and housing debt has soared to an all-time record. In the first nine months of last year, instalment credit, mainly on consumer durables, rose 19 per cent, while that on 1- to 4-family homes rose about 13 per cent. Since the end of 1945, consumer instalment and housing credit combined have soared from $21 billion to over $112 billion. It is not surprising that this tremendous rise in consumer indebtedness has caused considerable comment and some concern.

Significant questions in attempting to appraise the instalment credit situation are:

Why the sharp rise in consumer and housing credit?

What are the principal sources of instalment credit?

Does credit policy affect the supply of consumer and mortgage funds?

Has the debt burden of consumers become too large?

CONSUMER INVESTMENT IN PERSPECTIVE

First, let us get this segment of our economy in perspective. Consumer investment—expenditures for consumer durable goods and new residential construction—accounted for about 12 per cent of the total output of goods and services in 1954. In the first three quarters of last year, consumer investment was taking a little more—about 14 per cent of the total.

From the standpoint of credit, however, the consumer durable and housing segments are considerably more important. At the end of 1954, consumer instalment and mortgage debt on 1- to 4-family homes accounted for nearly two-thirds of total private, noncorporate debt outstanding, and for about two-thirds of the increase in such debt during the year.

WHY THE SHARP RISE IN CONSUMER AND HOUSING CREDIT?

The tremendous rise in consumer and housing debt during the postwar period has been generated by an unusually large volume of sales of homes, automobiles, and other consumer durables. About 10 million new homes have been constructed and over 50 million automobiles have been produced since 1945; and transactions in existing homes and used cars have been at high levels. This vast demand for housing, automobiles, and other durables reflects, in part, such well-known factors as the large backlog of demand which accumulated during the depression and war periods; the high level of new household formation resulting from population growth, a high marriage rate, undoubling, etc.; and the rise in personal income after taxes. In 1945, there were less than 15 million families with an annual income of $3,000 and over; today there are 35 million.

Another significant force translating consumer desire for high cost durable goods into actual purchases has been the more widespread use of buying on the instalment plan. Great strides have been made in the past two decades in financing purchases of homes and major consumer durables. Prior to that time, a person desiring to buy a home might be able to borrow up to one-half or possibly two-thirds of the appraised value. The single-payment loan maturing in a short period—e.g., three to five years—was typical. This method of home financing was not well adapted either to the borrower or the lender. The borrower was not forced into saving regularly some of his income to pay off the debt. Yet the amount was usually more than he could repay at maturity; and if times were bad the lender might refuse to renew it. As for the lender, the loan was not liquid and did not generate a regular inflow of cash payments. Thus lenders were unwilling to put a substantial amount of their available funds into loans for the purchase of homes. The use of credit to buy consumer goods was generally frowned upon both by lenders and consumers.

The single-payment loan has become obsolete in consumer financing. It has been displaced by the amortized loan with principal and interest repayable in regular instalments over a specified period. Instalment credit, in effect, enables consumers to spend tomorrow's income today.

The amortized loan, together with a gradual reduction in down payments and lengthening of maturities, laid the foundation for the large growth of consumer and residential mortgage credit. Amortization, along with FHA and VA

insurance and guarantees of home loans, made instalment loans more suitable to lenders and enlarged the supply of lendable funds. And terms better adapted to the needs of borrowers brought many new buyers into the market for homes, automobiles, and other consumer durable goods.

PRINCIPAL SOURCES OF INSTALMENT CREDIT

Two phases of the sources of instalment credit need to be distinguished—the institutions doing the lending and where they get their funds.

Lending Institutions

Instalment credit for the purchase of automobiles and other consumer durables is supplied mainly by commercial banks and sales finance companies. Commercial banks have become the largest supplier of consumer instalment credit. They now hold about 38 per cent of the total outstanding as compared to 26 per cent at the end of 1940. Sales finance companies are the next largest source with 33 per cent of the total as compared to 29 per cent at the end of 1940.

Long-term mortgage credit for the purchase of homes is supplied mainly by commercial banks, savings and loan associations, life insurance companies, and mutual savings banks. The following table shows the percentage distribution among lenders of mortgages on 1- to 4-family nonfarm homes.

Savings and loan associations have been the largest supplier of home mortgage funds in the postwar period, and accounted for about one-third of the total outstanding at the end of September, 1955. These institutions, together with life insurance companies and commercial banks, held over two-thirds of the total.

The importance of the various lenders has changed considerably since prewar. Savings and loan associations, life insurance companies, and, to a lesser extent, commercial banks are supplying a larger proportion of home mortgage funds than before the war. The "all other" group, mainly individuals, has become much less important. There has been little change in the position of savings banks.

NONFARM HOME MORTGAGES (1- TO 4-FAMILY) BY MAJOR HOLDERS

(Percentage distribution)

End of year	Comml. banks	Savings banks	Life ins. cos.	Savings & loan assoc.	All others
1941	14.7	12.0	10.9	23.3	39.1
1947	22.3	8.2	12.4	30.1	27.0
1950	21.1	9.5	18.6	29.1	21.7
1951	19.8	10.2	20.8	28.8	20.4
1952	19.1	10.6	20.4	30.0	19.9
1953	18.1	11.2	20.4	31.4	18.9
1954	17.5	11.9	20.3	32.9	17.4
1955 (Sept.)	17.2	12.2	19.7	34.3	16.6

Mortgage and real estate companies have become of increasing importance in closing home loans. In recent years, they have originated one-third or more of all FHA and VA loans for the purchase of homes. But these companies are only a temporary source of funds. They sell the bulk of their home loans to institutional lenders. The principal buyers of home loans originated by others have been life insurance companies, mutual savings banks, and the Federal National Mortgage Association.

Sources of lendable funds

Three of the principal mortgage lenders—life insurance companies, mutual savings banks, and savings and loan associations—derive the bulk of their funds from the public. As financial intermediaries, they mobilize the savings of millions of people, and via loans and investments, put them at the disposal of borrowers.

Sales finance companies—a major supplier of

consumer instalment credit—derive their funds mainly from capital paid in by stockholders, repayments on outstanding loans, and borrowing. They borrow directly from commercial banks and sell short-term paper and securities in the market. A large part of the short-term paper is in turn purchased by commercial banks. It has been estimated that about three-fifths of sales finance company funds is borrowed directly and indirectly from commercial banks.

Commercial banks, the other major supplier of mortgage and instalment credit, are unique. To be sure, most of them have savings deposits. But they are the only institutions that can hold demand deposits or checking accounts. When a customer borrows from a commercial bank, the banker doesn't hand him cash over the counter—he credits the borrower's deposit account. Spendable funds have been put at the disposal of the borrower without any corresponding reduction in funds available to others. The bank, in making the loan, created a new deposit, thereby increasing the total money supply available to the public.

Thus, commercial banks differ from other lenders in two important respects. They put new deposits at the disposal of borrowers while savings institutions transfer funds from saver to borrower. Commercial banks are required by law to maintain a certain minimum percentage reserve back of their deposits. The capacity of commercial banks to make loans and investments is limited by the supply of reserves available to them. More reserves (or a reduction in the percentage required) expand lending capacity; less reserves (or an increase in the percentage requirements) contract it. The lending capacity of savings institutions, however, is limited by their net inflow of new funds.

Sometimes the net flow of savings into life insurance companies, mutual savings banks, and savings and loan associations is not sufficient for them to meet their customers' demands for mortgages and other forms of credit. In general, this has been the case since 1952—the net inflow of savings falling short of the increase in their holdings of mortgages and non-Government securities.

To obtain additional funds for mortgages and business securities, some of these institutions sometimes sell Governments. This has been a significant source in the postwar period, reflecting in part portfolio readjustments to restore better balance between holdings of Governments and other types of investments. To the extent savings institutions acquire mortgages or other securities by selling Governments, there is only a shift in assets, not an increase in the total.

A second method of expanding capacity to take up new mortgage or other commitments is the disposal of mortgages already held. The Federal National Mortgage Association was organized in 1948 to provide a better secondary market for FHA and VA home loans. Although the policies of "Fanny May" have varied over the years, it has acquired an increasing amount of FHA and VA mortgages, its holdings having risen from about $200 million at the end of 1948 to $2.6 billion in October 1955.

Recently, the so-called "warehousing" of residential mortgages with commercial banks has attracted widespread attention. Under this arrangement, savings institutions either sell some of their mortgages to commercial banks under an agreement to buy them back within a specified period or borrow directly from commercial banks putting the mortgages up as collateral for the loan. Life insurance companies in particular have been selling mortgages to commercial banks under a repurchase agreement. Mortgage com-

panies, savings banks, and savings and loan associations, on the other hand, usually borrow from commercial banks pledging the mortgages as collateral. A survey conducted by the Federal Reserve System, as of November 1955, revealed that weekly reporting member banks had $1.6 billion of credit outstanding to real estate mortgage lenders. Unused commitments outstanding at the same time totaled $1.2 billion.

Savings and loan associations have turned to the Federal Home Loan Banks for additional funds. Home Loan Bank advances to member institutions have risen steadily in the postwar period. In the first 11 months of this year net advances of the Home Loan Banks rose about $500 million—an increase of nearly 60 per cent.

Sales finance companies have increased their borrowing both from banks and in the market. Bank loans to sales finance companies, as reported by a sample of large banks, increased about $500 million in the first 10 months of last year. Outstanding short-term paper placed directly with buying institutions was up about $600 million.

MONETARY POLICY AND INSTALMENT CREDIT

Monetary policy—actions of the Federal Reserve to make credit more or less readily available—operates through influencing the cost and available supply of lendable funds. What about the effect of such actions on consumer and mortgage credit?

Consumer Credit

A view that seems to be rather widely held is that monetary actions have little or no effect on consumer instalment credit. Moderate changes in the cost of credit are unlikely to have much effect on the willingness of consumers to borrow. And interest rates on consumer loans tend to be sticky. Monetary actions, however, do affect the supply of lendable funds. A restrictive policy, for example, tightens reserve positions and squeezes the lending capacity of commercial banks. Although banks ration the more limited supply among borrowers as they see fit, it is unlikely that the supply of consumer credit will be unaffected. They are likely to screen their own consumer loan applications more carefully and hold a tight rein on credit lines to sales finance companies and other consumer lenders. If sales finance companies turn to the market for a larger part of their funds, the cost increases as market rates rise.

Mortgage Credit

There are several avenues through which monetary actions affect the supply of funds available for home loans. Credit restraint affects commercial banks directly. Other mortgage lenders find it more difficult to supplement their inflow of savings by selling Government securities, warehousing mortgages with commercial banks, or selling mortgages in the secondary market.

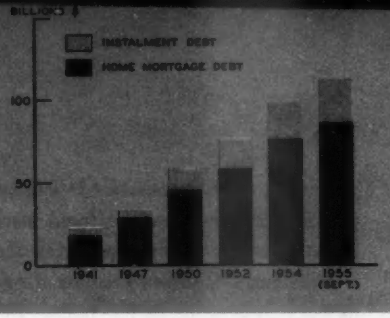
When credit is tight, prices of Government securities decline. Lenders become more reluctant to sell Governments, possibly at a loss, to shift into mortgages and other securities. In 1954 when money was plentiful and bond prices strong, life insurance companies and mutual savings banks liquidated a substantial amount of Governments. But in 1955 such liquidation dried up as Government securities prices declined. As their reserve positions tighten, commercial banks become increasingly reluctant to make direct loans to other mortgage lenders or to warehouse their mortgages. The prices of mortgages also decline in the secondary market

(continued on page 10)

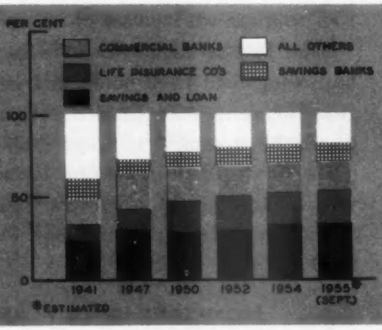
CONSUMER INSTALMENT AND HOME MORTGAGE DEBT

NOTE: Home mortgage debt refers only to nonfarm 1- to 4-family homes.

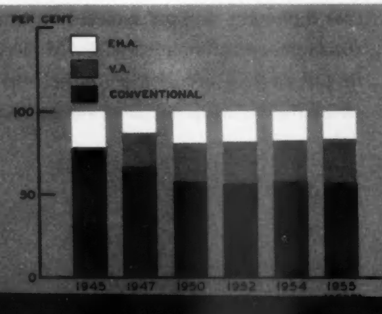
1 Consumer instalment and home mortgage debt soar.

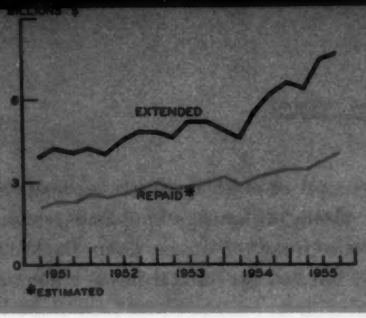


2 Savings and loan associations are the largest holders of home mortgages.



3 Over 40% of home mortgages are being underwritten by the Government.





6 New home loans began to rise rapidly in mid-1954.

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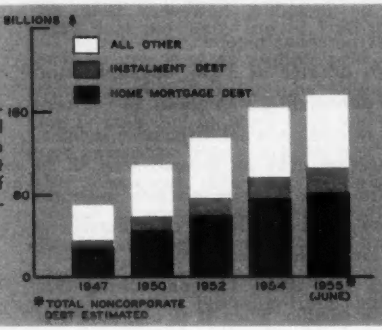

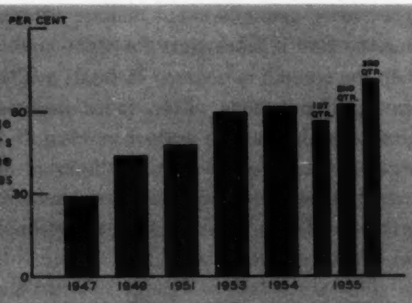

7 The percentage of new cars bought "on the cuff" continues to rise.

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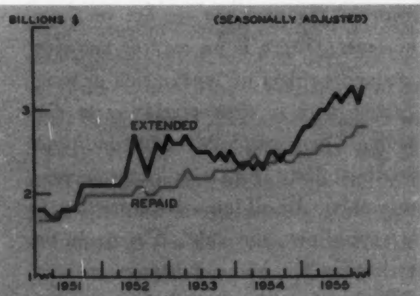
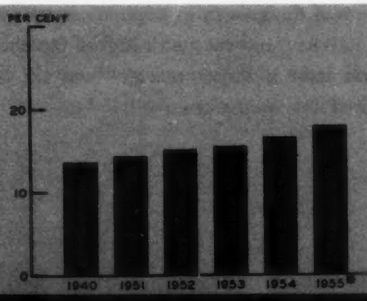




8 Repayments on consumer instalment and home mortgage debt are taking an increasing percentage of personal income after taxes.

as the supply of mortgage funds becomes scarcer.

The ability of savings and loan associations to borrow from the Home Loan Banks is not directly affected by Federal Reserve actions. In September, however, the Home Loan Bank Board tightened up on advances to member associations, although later there was some relaxation. Such coordinated action contributes to the effectiveness of monetary policy on the supply of mortgage credit.

The full impact of credit restraint on the supply of mortgage funds may not be felt for several months. The psychological reactions of lenders may be rather prompt. Faced with more uncertainty as to the availability of funds, they may be more cautious about making new commitments. But it takes time for tight credit to dry up the secondary sources of funds available to savings institutions. Even more important, large lenders customarily make commitments for financing new homes several months in advance of actual construction. The full impact on construction is delayed until outstanding commitments are taken up.

PERSONAL DEBT TOO HIGH; EXPANDING TOO RAPIDLY?

The high levels and rapid rates of expansion in consumer instalment and home mortgage debt have aroused considerable comment recently. Some express concern over the rapid rise and the huge amounts of such debt outstanding. Others think there is nothing to be concerned about. They point out that personal debt in relation to income and saving is not far out of line with prewar; that the sharp rise is natural in view of the growth in population, income, and productivity; and that with higher incomes, consumers have a larger margin over the amount required for necessities.

Personal debt too high?

One measure frequently cited, especially for consumer debt, is the amount outstanding relative to income. Both consumer and home mortgage debt should be included, however. Both are claims against personal income.

In the third quarter of 1955, consumer and housing debt outstanding was about 44 per cent of the annual rate of personal disposable income. The percentage of debt to income was 32 in 1950, and 30 in 1941. This comparison indicates that consumers' total instalment debt burden is considerably larger than prewar.

It has been said that "The only thing that doesn't become smaller when it is contracted is debt." Payments relative to disposable income are a better indication of ability to carry instalment debt than outstanding debt relative to income. In the third quarter of this year consumer instalment and home mortgage debt payments combined took about 18 per cent of personal income after taxes, as compared to 15 per cent in 1952, 13 per cent in 1950, and 13.6 per cent in 1940. This measure also indicates a somewhat heavier burden than prewar.

Such historical comparisons are not very significant, however. There is no way of knowing whether outstanding debt or repayments in some previous period were in proper relation to disposable income. Then, too, habits and conditions change over time. Debt is a claim on the income of borrowers only. An all-important question is how many people owe the debt. Payments on instalment debt or the home mortgage may in part be substitutes for other expenses—e.g., payments on the mortgage instead of rent, payments on home appliances instead of wages to domestic servants, and payments on the TV set instead of the price of admission to the movies.

The fact that the delinquency rate is low and that collections are holding up well is also cited as evidence that personal debt is not too large. One may well be skeptical, however, as to the value of this indicator at a time like this. Certainly debt payments should hold up when personal income is at an all-time peak. Inventories seldom seem unduly large so long as sales volume is high, but let sales drop and even a moderate inventory begins to look pretty big. Likewise, consumer debt and mortgage debt are unlikely to seem unduly burdensome so long as employment is good and incomes are rising. But how would the same volume of personal debt appear should a recession drag employment and incomes down to considerably lower levels?

Terms too liberal; expansion too rapid?

There is no simple yes or no answer to the question of whether consumer debt is too high. But there are sound reasons for concern over recent consumer and home mortgage debt developments. One development which should cause us to pause and think is the extremely liberal terms on which a part of this credit has been extended. Adequate statistics are not available to accurately measure changes in credit terms, but there seems to be little doubt that over the last year or so down payments have been reduced and maturities lengthened. Dealers burdened with large quotas of new automobiles to sell have been pressing financing institutions for lower down payments and longer periods for repayment, as indicated in the next article. Until August 1 of 1955 one could buy a new home with nothing down and thirty years to pay. In fact, if one looks through the advertisements it almost seems that builders and merchants are selling credit terms instead of homes and merchandise.

Excessively liberal credit terms may well get us into trouble. Some borrowers may be induced "to get into debt over their heads." To consumers who may be encouraged to borrow and buy more than they can pay for, the widely advertised "easy payment plans" may appear to be a careless use of adjectives. Small or no down payments mean that the buyer of a home, an automobile, or a household appliance has little at stake. And with little or no equity, he has little incentive to hold on to his property if and when his payments become difficult to meet.

Unduly liberal credit terms are also hazardous to the lender. It has been estimated that the buyer of a new car under a one-fourth down, 36 months-to-pay contract, has little or no equity during the first year. In the case of a new home sold for nothing down and 30 years to pay, the buyer has no real equity for about nine years. If borrowers have little or no equity, lenders have little or no margin of security. A principle long accepted by lenders is that the borrower should have a reasonable equity in the property pledged as security for his loan. This principle is still sound. And the maturity of the loan should be short enough so that the monthly payments protect the initial equity; otherwise the lender may incur a loss if he must repossess the property.

Another serious implication of the recent trend toward quite liberal credit terms is the effect on future markets. Lower down payments and longer maturities bring new buyers into the market. But this is a one-shot stimulus. Once spent, there is no further stimulating effect unless credit terms are eased again. And lengthened maturities, by locking in a part of the buyer's income for an extended period, may take him out of the market for a long time.

Credit terms have been eased when home construction and the production of automobiles

were already at record levels. If storm clouds should appear on the business horizon, lenders may increase down payment requirements and shorten maturities. More liberal credit terms in good times and less liberal in recessions would aggravate fluctuations in durable goods production and employment rather than alleviate them.

The practice of warehousing mortgages with commercial banks expands the lending capacity of nonbank lenders in boom times. If, as is likely, the mortgages are repurchased or the loans repaid when business slows down, a part of the inflow of savings will be absorbed in paying off old debt instead of going into loans which would expand the demand for current output. This, too, may well aggravate fluctuations in new-home construction.

Another pertinent question is whether the rapid rate of expansion in instalment and housing credit can be sustained. Rising employment and incomes, optimism over business prospects, and easing of credit terms have all combined to expand instalment and housing credit at an unprecedented rate. The result: an unprecedented amount of future income is being diverted into the purchase of automobiles and homes. But credit purchases of durables and homes go in spurts. What if expansion slows down, or there is even a decline? With new loans made below repayments, outstanding debt would siphon off a part of current income, thus tending to reduce demand for homes and automobiles.

It hardly seems likely that the recent rate of expansion in instalment and housing credit can be sustained for long. It has been estimated that if real disposable income should increase at a rate of 4 per cent annually and consumer instalment credit at 19 per cent (the average rate of increase during the past three and one-half years), repayments on consumer instalment debt alone would take about 37 per cent of disposable income by 1965. When the late Will Rogers was asked what causes depressions, he thought for a moment and replied, "Well, we have to stop once in a while and pay up." The chances of avoiding a business slump will be improved if instalment and home mortgage credit do not expand at a faster rate than can be sustained.

CONCLUSIONS

The instalment or amortized loan to consumers and home buyers has rightly earned an important place in our economy. Improved methods of financing have enabled many people to own homes, automobiles, refrigerators, washing machines, TV sets, etc., who would otherwise not have them.

But credit like any other good thing can be abused as well as used. Instalment credit buying has posed the problem of too much sometimes; too little at others. Monetary actions, by tightening and easing the supply of lendable funds, can help smooth out these fluctuations. Lenders, too, can be helpful by keeping credit terms on a sound basis—particularly at a time when consumer ability to pay is at an all-time peak. Prosperity *on* the instalment plan is all right, but let's not have prosperity *in* instalments.

CURRENT TRENDS

. . . in housing and cars

With the preceding article as general background, current trends in the market for housing and cars come into sharper focus. The following is a report on what we have learned from recent interviews with men active in both markets in Philadelphia and other centers of the Third District.

DEVELOPMENTS IN HOUSING

Inquiries made of realtors, lenders, and builders indicate that housing markets in major cities of the Third Federal Reserve District have become increasingly selective in recent weeks. Opinions ranged all the way from "considerably weaker" to "continuing quite strong." No one seemed downright pessimistic concerning either the current situation or the outlook for 1956, but expressions of unqualified optimism were seldom heard. These interviews uncovered more spotty situations than have been encountered for a long time. Perhaps the most characteristic comments were to the effect that much of the urgency was gone from the attitude of prospective home buyers and that demand had weakened more for existing dwellings than for newly constructed ones.

Rental vacancies have increased

Realtors told us that rental lists have lengthened in some of the larger cities like Philadelphia, Harrisburg, and Trenton. Although the vacancy situation appears to be far from acute anywhere, nearly all areas report the existence of "more elbow room." The uptrend in vacancies seems much more pronounced in houses than in duplexes or converted apartments. The large apartment houses are said to be fully occupied, and in some cases waiting lists are almost as long as they ever were. With a wider choice of houses for rent it is not surprising that more people are inclined to delay buying a house until they find a bargain in an old one or see just what they want in a new operation.

. . . and there are more old houses for sale

The number of old houses for sale also has increased, with a consequent weakening of this market in a majority of Third District cities. Owners of these properties seem to be unaware of declining values, so in holding out for unrealistically high asking prices they are delaying sales. The larger houses are said to be especially slow moving, although buyers also are harder to find for some row houses in the older neighborhoods where zoning regulations have been downgraded. According to realtors, there are many more desirable properties on today's market to compete with newly constructed houses in the medium and low price ranges. This is a comparatively recent development. Last spring and over much of the summer the market for these "better" dwellings showed remarkable strength.

Demand for new houses has turned spotty

Reports from some areas indicate a significant accumulation of unsold newly built houses, while

elsewhere operations seem to sell out almost as fast as they are completed. It is a very spotty situation. In suburban areas around Philadelphia, for example, we were told of operations remaining on builders' hands only long enough to make the finishing touches, while others in the same general locality were described as "unexplainably sticky." Similar conditions appeared to exist near Harrisburg. In the Trenton area of New Jersey builders spoke of the probability of carrying over a substantial number of houses into the spring market. In the vicinity of Reading, where operations have maintained a steady but rather conservative pace all year, new houses were selling about as promptly as ever. Demand also was said to remain active for the season in places like Wilmington, New Castle, and Newark in Delaware, where there has been considerable industrial expansion and a continuing influx of workers. Dover is another Delaware city where the market has held up, largely because of the housing needs of airforce personnel.

Financing difficulties are contributing to slower sales

As almost everyone knows, the supply of mortgage money has grown progressively tighter since last spring. And it seems to be harder to obtain adequate coverage on an old house than on a new one, chiefly because appraisals are increasingly conservative. This situation appears to be district-wide and not necessarily dependent on the number of old houses on the market in a given community. Even on new construction, financing is neither as readily available nor as attractive to a prospective purchaser as a few months ago. Interest rates generally are higher on conventional mortgages and larger down payments with shorter maturities prevail on all types of financing. At the very least, this tighter mortgage market frequently delays sales and sometimes discourages them altogether.

Builders are proceeding more cautiously

Third District builders operating in all price ranges tell us they have been watching the housing market closely and that what they have seen has not been altogether reassuring. Some have shifted their maximum efforts into lower price ranges—houses selling for less than $15,000. Others have continued building in the higher brackets, but at a somewhat slower rate than formerly. All builders seem to be more keenly aware of the increasingly competitive market in which they must operate. Not only has there been some slackening in the rate of completions on houses begun earlier, but in many cases builders are making fewer starts than originally planned. Programs developing for the early months of 1956 also are being revised downward, some much more than others. Builders tell us they still are acquiring some new land, but these ventures are on a smaller scale consistent with today's more selective housing market.

THE DEMAND FOR CARS

Last year the automobile industry went over the top. The production of almost 8 million cars took a lot of steel, rubber, glass and other materials. Automobile sales also went over the top. The sale of almost 7½ million cars took a lot of credit. Automobile paper accounted for most of the $5 billion increase in instalment paper.

New car sales are holding up

Sales of new cars are running near year-ago levels but more aggressive selling techniques are required to keep them there. "I'm selling the same number of cars," said one of the dealers, "but I have to give away most of my profit to

do it." Some dealers reported that public acceptance of 1956 models was not quite as good as the 1955's; others reported that the market is still saturated from last summer's efforts to move the 1955 cars. The larger the city the more intense the competition seems to be.

With regard to inventories of new cars there are conflicting reports. It all depends on what dealer you are talking to. Less than a sixth of the dealers we talked to reported heavy inventories; forty-five per cent said their inventories were light and the others, about 40 per cent, said their inventories were balanced or normal for this time of the year.

How fast new cars sell depends largely upon the terms offered. It is always thus. Most dealers say that they require as a down payment a third or at least a fourth of the list price. However, there is always a temptation to knock off a little more in order to close a deal.

Maturities run up to 36 months. Most dealers say they dislike long-term financing because they feel that it extends the time when the buyer will again be in the market. Although a dealer may prefer shorter maturities, there is little he can do if his competitors go the limit.

The used car market shows strength

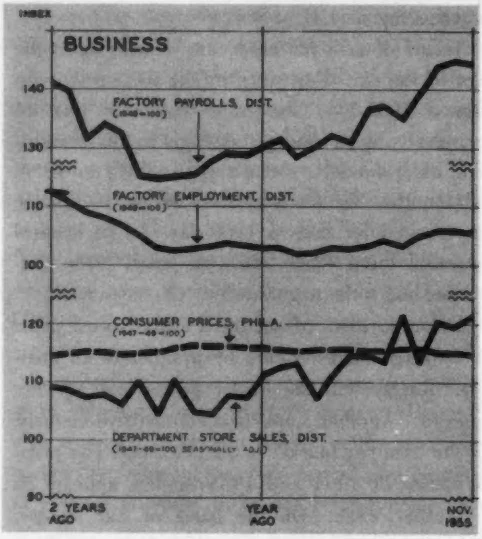
Most of the dealers report that the demand for used cars is good, better in fact than the demand for new cars. In late December when we made the survey the demand for used cars was slightly stronger than in the corresponding period a year earlier. Dealers are fortunate to have a good market for used cars because inventories are heavy. This is a natural consequence of the huge volume of new car sales last year. Used cars have an average lay-over of 15 to 20 days and most dealers dispose of them without excessive wholesaling.

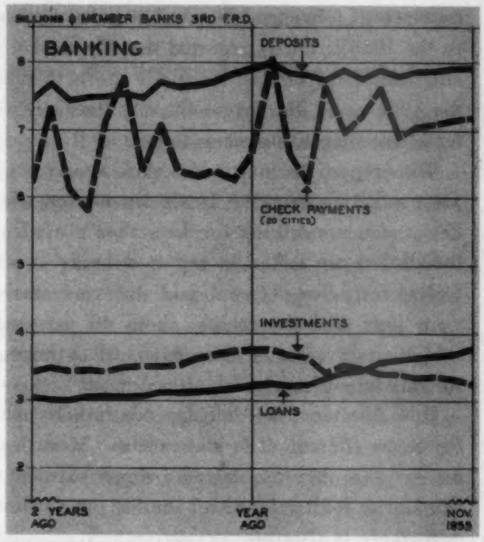
Terms of sale for used cars depend upon the age of the car. For more recent models (for instance 1955-54), the most common was 24 months; only a few go as high as 36 months. For older models, maturities usually run 12 to 18 months, but many dealers refuse to finance anything older than a 1950 car. In such cases personal loans from banks or small loan companies had to be negotiated by the customer.

Down payment of one-third of the asking price is required on used cars by practically all dealers. Rarely will the dealer go as low as one-quarter. Another important competitive element in the used car market is the price tag. The price structure of 1954 and 1955 models appears to be rather weak. On the basis of our survey, softening was noted about twice as often as firmness. This is ascribed to competition from attractive deals on new '56 cars. Many people who would normally buy a late model used car have been attracted to new cars. Prices of older models appear to be holding steady as a result of brisk demand. Very few cases of downward price trends were found for 1953 cars or models of earlier vintage.

In summary, our survey of automobile dealers revealed continued optimism, intensive competition, and a disposition to offer the most favorable terms possible to prospective buyers. To the dealer under constant pressure of overhead costs and the need for fast turnover any potential buyer with a steady job looks like a good prospect. However, funds are getting tighter and many lenders frown upon any further easing of down payments and maturities.

FOR THE RECORD...





SUMMARY	Third Federal Reserve District Per cent change November 1955 from mo. ago	Third Federal Reserve District Per cent change November 1955 from year ago	Third Federal Reserve District Per cent change 11 mos. 1955 from year ago	United States Per cent change November 1955 from mo. ago	United States Per cent change November 1955 from year ago	United States Per cent change 11 mos. 1955 from year ago
OUTPUT						
Manufacturing production	0	+ 7	+ 3	0	+13	+11
Construction contracts*	+7	+10	+13	−2	+ 6	+22
Coal mining	+4	+ 7	+12	−1	+16	+18
EMPLOYMENT AND INCOME						
Factory employment (Total)	0	+ 2	− 1	+1	+ 6	+ 3
Factory wage income	0	+10	+ 6	...	...	...
TRADE**						
Department store sales	+2	+ 9	+ 7	0	+ 8	+ 7
Department store stocks	+2	+ 9	...	...	...	...
BANKING (All member banks)						
Deposits	0	0	+ 3	+1	+ 1	+ 4
Loans	+2	+17	+13	+3	+18	+13
Investments	−2	−13	− 3	−2	−11	0
U.S. Govt. securities	−3	−13	− 4	−3	−14	− 2
Other	−1	−13	0	−1	+ 2	+ 8
Check payments	0†	+ 9†	+ 7†	−1	+10	+ 8
PRICES						
Wholesale	...	...	...	0	+ 1	0
Consumer	0‡	− 1‡	0‡	0	0	0

*Based on 3-month moving averages.
**Adjusted for seasonal variation.
†20 Cities
‡Philadelphia

LOCAL CHANGES	Factory* Employment mo. ago	Factory* Employment year ago	Factory* Payrolls mo. ago	Factory* Payrolls year ago	Department Store Sales mo. ago	Department Store Sales year ago	Department Store Stocks mo. ago	Department Store Stocks year ago	Check Payments mo. ago	Check Payments year ago
	Per cent change November 1955 from		Per cent change November 1955 from		Per cent change November 1955 from		Per cent change November 1955 from		Per cent change November 1955 from	
Allentown	0	+ 9	0	+26	...	...	...	...	−1	+12
Harrisburg	+1	+12	+ 2	+34	...	...	...	...	−1	+ 9
Lancaster	0	+ 8	+ 2	+17	+42	+10	0	+ 7	−1	+13
Philadelphia	−1	− 1	− 1	+ 5	+32	+ 9	+2	+11	+2	+ 7
Reading	+1	+ 6	+ 2	+18	+29	+ 5	+1	+ 5	+5	+21
Scranton	0	+ 2	+ 3	+11	+ 8	+ 6	0	+ 3	−3	+ 4
Trenton	0	+ 8	− 1	+19	+12	− 4	+2	− 2	−7	+ 5
Wilkes-Barre	+1	+ 5	+ 2	+ 8	+26	+ 5	+2	+ 9	+6	+ 5
Wilmington	+6	+12	+13	+24	+34	+17	+9	+15	−7	+16
York	−1	+ 3	0	+12	+17	+27	+1	+13	+4	+13

*Not restricted to corporate limits of cities but covers areas of one or more counties.

or